

Financial statements of:

SECOND HARVEST HEARTLAND

Years ended
September 30, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Second Harvest Heartland
7101 Winnetka Avenue N.
Brooklyn Park, MN 55428

Opinion

We have audited the financial statements of Second Harvest Heartland (the Organization), which comprise the statements of financial position as of September 30, 2024 and 2023, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of September 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

December 9, 2024
Minneapolis, MN

SECOND HARVEST HEARTLAND

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30

	<u>2024</u>	<u>2023</u>		<u>2024</u>	<u>2023</u>
Assets:			Liabilities and net assets:		
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 9,294,682	\$ 13,783,562	Accounts payable	\$ 2,126,121	\$ 1,526,799
Investments:			Accrued expenses	2,492,474	2,579,583
Operating reserves	18,249,327	17,293,745	Operating lease liability, current portion	429,262	410,637
Strategic initiatives:			Long-term debt, current portion	141,673	135,039
DEI investment	1,693,725	3,521,093			
Future capabilities	556,252	1,406,869			
Receivables:					
Agency and partner	2,396,718	2,413,962			
Grants and contracts	1,807,006	1,386,355			
Pledges, net	4,481,400	737,200			
Inventory	9,886,135	6,695,375			
Prepaid expenses and other current assets	1,000,224	950,084			
Total current assets	<u>49,365,469</u>	<u>48,188,245</u>	Total current liabilities	<u>5,189,530</u>	<u>4,652,058</u>
Long-term investments:			Noncurrent liabilities:		
Strategic initiatives:			Long-term debt	3,531,981	3,673,654
DEI investment	-	412,296	Operating lease liability, net of current portion	1,296,463	1,399,170
Programs	-	313,750	Total noncurrent liabilities	<u>4,828,444</u>	<u>5,072,824</u>
Future capabilities	-	310,748			
Board-designated endowment	25,382,518	21,221,405	Total liabilities	<u>10,017,974</u>	<u>9,724,882</u>
Property and equipment, net	36,346,778	35,844,907			
Pledges, net of current portion	10,307,584	-	Net assets:		
Right of use assets:			Without donor restrictions:		
Operating leases	1,724,493	1,807,662	Operations	59,196,707	61,402,344
			In-kind inventory	6,411,709	3,838,957
Total noncurrent assets	<u>73,761,373</u>	<u>59,910,768</u>	Board-designated:		
			Endowment	25,382,518	21,221,405
			Strategic initiatives	2,249,977	5,964,756
			Total without donor restrictions	<u>93,240,911</u>	<u>92,427,462</u>
			With donor restrictions	<u>19,867,957</u>	<u>5,946,669</u>
			Total net assets	<u>113,108,868</u>	<u>98,374,131</u>
Total assets	<u>\$ 123,126,842</u>	<u>\$ 108,099,013</u>	Total liabilities and net assets	<u>\$ 123,126,842</u>	<u>\$ 108,099,013</u>

See notes to financial statements.

SECOND HARVEST HEARTLAND

 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 YEARS ENDED SEPTEMBER 30

	2024			2023		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues:						
Program services	\$ 5,768,847		\$ 5,768,847	\$ 4,008,360		\$ 4,008,360
Purchase program	21,946,575		21,946,575	19,683,375		19,683,375
Government contracts	5,469,249		5,469,249	6,093,617		6,093,617
Contributions	38,972,124	\$ 17,860,877	56,833,001	42,671,148	\$ 8,357,554	51,028,702
Special events, net of expenses of \$606,787 and \$464,120 in 2024 and 2023, respectively	1,373,706		1,373,706	2,925,186		2,925,186
In-Kind donations:						
Product	216,020,002		216,020,002	175,230,674		175,230,674
Services	657,191		657,191	386,824		386,824
Investment income	7,404,786		7,404,786	3,564,701		3,564,701
Miscellaneous income	513,714		513,714	457,576		457,576
	<u>298,126,194</u>	<u>17,860,877</u>	<u>315,987,071</u>	<u>255,021,461</u>	<u>8,357,554</u>	<u>263,379,015</u>
Net assets released from restrictions	<u>3,939,589</u>	<u>(3,939,589)</u>	<u>-</u>	<u>5,204,806</u>	<u>(5,204,806)</u>	<u>-</u>
Total support and revenues	<u>302,065,783</u>	<u>13,921,288</u>	<u>315,987,071</u>	<u>260,226,267</u>	<u>3,152,748</u>	<u>263,379,015</u>
Expenses:						
Programs	278,635,570		278,635,570	236,964,327		236,964,327
General & administrative	10,888,187		10,888,187	9,315,184		9,315,184
Fundraising	11,728,577		11,728,577	8,777,626		8,777,626
Total expenses	<u>301,252,334</u>		<u>301,252,334</u>	<u>255,057,137</u>		<u>255,057,137</u>
Change in net assets	813,449	13,921,288	14,734,737	5,169,130	3,152,748	8,321,878
Change in net assets, increase (decrease) from operations	(1,759,303)	13,921,288	12,161,985	5,564,212	3,152,748	8,716,960
In-kind inventory change	<u>2,572,752</u>		<u>2,572,752</u>	<u>(395,082)</u>		<u>(395,082)</u>
Total change in net assets	813,449	13,921,288	14,734,737	5,169,130	3,152,748	8,321,878
Net assets, beginning	<u>92,427,462</u>	<u>5,946,669</u>	<u>98,374,131</u>	<u>87,258,332</u>	<u>2,793,921</u>	<u>90,052,253</u>
Net assets, ending	<u>\$ 93,240,911</u>	<u>\$ 19,867,957</u>	<u>\$ 113,108,868</u>	<u>\$ 92,427,462</u>	<u>\$ 5,946,669</u>	<u>\$ 98,374,131</u>

See notes to financial statements.

SECOND HARVEST HEARTLANDSTATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ 14,734,737	\$ 8,321,878
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	1,717,470	1,669,287
Donated securities	(1,123,615)	(1,231,612)
Loss on disposal of property and equipment	51,565	12,475
Investment income	(7,632,693)	(3,789,992)
(Increase) decrease in assets:		
Pledges receivable	(14,051,784)	(505,360)
Agency and partner receivables	17,244	(7,106)
Inventory	(3,190,760)	467,450
Prepaid expenses and other current assets	(50,140)	(413,526)
Grants and contracts receivable, net	(420,651)	913,934
Increase (decrease) in liabilities:		
Accounts payable	599,322	(1,055,714)
Accrued expenses	(87,109)	(15,215)
Net right of use asset and lease liability	(913)	2,145
Net cash (used in) provided by operating activities	<u>(9,437,327)</u>	<u>4,368,644</u>
Cash flows from investing activities:		
Proceeds from sale of investments	9,389,190	15,580,628
Purchase of:		
Property and equipment	(2,270,906)	(2,091,639)
Investments	(2,034,798)	(9,372,221)
Net cash provided by investing activities	<u>5,083,486</u>	<u>4,116,768</u>
Cash flows used in financing activities, payments on long term debt	<u>(135,039)</u>	<u>(129,593)</u>

See notes to financial statements.

SECOND HARVEST HEARTLANDSTATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30

	<u>2024</u>	<u>2023</u>
Net change in cash	\$ (4,488,880)	\$ 8,355,819
Cash at beginning of year	<u>13,783,562</u>	<u>5,427,743</u>
Cash at end of year	<u>\$ 9,294,682</u>	<u>\$ 13,783,562</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 168,033</u>	<u>\$ 174,130</u>
Non-cash investing and financing activity, right of use asset obtained in exchange for operating lease liability	<u>\$ 344,726</u>	

See notes to financial statements.

SECOND HARVEST HEARTLAND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2024

	Program Services				Supporting Services				Total
	Food Bank	Community Outreach	CSFP	Food Sourcing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Wages and temporary services	\$ 4,343,635	\$ 3,711,049	\$ 324,641	\$ 1,526,967	\$ 9,906,292	\$ 7,244,672	\$ 3,636,833	\$ 10,881,505	\$ 20,787,797
Fringe benefits and payroll taxes	1,132,908	888,876	86,540	390,338	2,498,662	890,891	894,841	1,785,732	4,284,394
Professional fees	238,634	102,800	283	519	342,236	1,055,296	1,632,837	2,688,133	3,030,369
In-kind professional fees	-	54,571	12,600	1,000	68,171	416,739	172,281	589,020	657,191
Occupancy	662,106	77,139	32,847	20,290	792,382	228,098	107,975	336,073	1,128,455
Vehicles operation	1,523,613	166,756	41,252	487,092	2,218,713	11,166	-	11,166	2,229,879
Procurement	5,977	5,639	46,677	9,166,673	9,224,966	-	174,084	174,084	9,399,050
Equipment	684,045	772,564	59,917	94,289	1,610,815	210,269	480,009	690,278	2,301,093
Supplies	173,626	97,220	22,433	7,746	301,025	110,802	321,239	432,041	733,066
Meeting, travel and staff development	46,259	109,569	4,850	42,680	203,358	153,960	86,131	240,091	443,449
Promotions and marketing	-	106,335	2,511	-	108,846	298,888	915,776	1,214,664	1,323,510
Special events expense	-	-	-	-	-	-	606,787	606,787	606,787
Direct mail	-	-	-	-	-	3,790	3,179,062	3,182,852	3,182,852
Network fees	-	380	-	-	380	39,969	-	39,969	40,349
Agency assistance	-	1,858,087	86	-	1,858,173	18,120	4,000	22,120	1,880,293
In-kind distributed*	207,932,812	-	5,514,439	-	213,447,251	-	-	-	213,447,251
Cost of purchased product disbursed	26,573,816	7,840,067	110	-	34,413,993	-	-	-	34,413,993
Other	867	-	-	-	867	82,973	-	82,973	83,840
Depreciation and amortization	1,277,540	148,591	13,479	61,972	1,501,582	111,063	104,825	215,888	1,717,470
Interest	116,847	13,238	4,280	3,493	137,858	11,491	18,684	30,175	168,033
	<u>244,712,685</u>	<u>15,952,881</u>	<u>6,166,945</u>	<u>11,803,059</u>	<u>278,635,570</u>	<u>10,888,187</u>	<u>12,335,364</u>	<u>23,223,551</u>	<u>301,859,121</u>
Less special events direct expenses	-	-	-	-	-	-	606,787	606,787	606,787
	<u>\$ 244,712,685</u>	<u>\$ 15,952,881</u>	<u>\$ 6,166,945</u>	<u>\$ 11,803,059</u>	<u>\$ 278,635,570</u>	<u>\$ 10,888,187</u>	<u>\$ 11,728,577</u>	<u>\$ 22,616,764</u>	<u>\$ 301,252,334</u>

*Food Bank In-kind distributed includes Food Rescue product.

SECOND HARVEST HEARTLAND

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2023

	Program Services				Total Program Services	Supporting Services			
	Food Bank	Community Outreach	CSFP	Food Sourcing		Management and General	Fundraising	Total Supporting Services	Total
Wages and temporary services	\$ 3,933,528	\$ 3,371,020	\$ 333,626	\$ 1,755,063	\$ 9,393,237	\$ 6,193,202	\$ 2,824,924	\$ 9,018,126	\$ 18,411,363
Fringe benefits and payroll taxes	972,662	733,648	84,950	408,197	2,199,457	1,172,161	621,342	1,793,503	3,992,960
Professional fees	220,900	262,571	1,469	3,402	488,342	657,041	1,266,037	1,923,078	2,411,420
In-kind professional fees	54,390	35,268	5,265	4,680	99,603	228,489	31,133	259,622	359,225
Occupancy	859,650	86,082	20,589	23,564	989,885	176,075	61,268	237,343	1,227,228
Vehicles operation	1,465,972	61,860	36,322	427,060	1,991,214	16,365	-	16,365	2,007,579
Procurement	55,983	38,502	-	6,529,862	6,624,347	-	132,470	132,470	6,756,817
Equipment	676,099	1,063,726	41,690	145,658	1,927,173	156,436	278,393	434,829	2,362,002
Supplies	141,883	163,600	20,069	11,544	337,096	109,991	303,359	413,350	750,446
Meeting, travel and staff development	40,439	96,101	3,749	34,787	175,076	160,151	60,784	220,935	396,011
Promotions and marketing	-	77,660	2,428	-	80,088	192,108	569,445	761,553	841,641
Special events expense	-	-	-	-	-	-	464,120	464,120	464,120
Direct mail	-	-	-	-	-	18,864	2,519,819	2,538,683	2,538,683
Network fees	-	-	-	-	-	23,985	-	23,985	23,985
Agency assistance	-	3,243,636	673	146,000	3,390,309	77,391	120	77,511	3,467,820
In-kind distributed*	170,658,354	-	4,967,399	-	175,625,753	-	-	-	175,625,753
Cost of purchased product disbursed	32,014,523	-	-	-	32,014,523	-	-	-	32,014,523
Other	-	-	-	-	-	14,110	-	14,110	14,110
Depreciation and amortization	1,262,726	124,708	16,722	82,514	1,486,670	92,148	90,469	182,617	1,669,287
Bad debts	-	-	-	-	-	12,154	-	12,154	12,154
Interest	116,784	13,745	4,774	6,251	141,554	14,513	18,063	32,576	174,130
	<u>212,473,893</u>	<u>9,372,127</u>	<u>5,539,725</u>	<u>9,578,582</u>	<u>236,964,327</u>	<u>9,315,184</u>	<u>9,241,746</u>	<u>18,556,930</u>	<u>255,521,257</u>
Less special events direct expenses	-	-	-	-	-	-	464,120	464,120	464,120
	<u>\$ 212,473,893</u>	<u>\$ 9,372,127</u>	<u>\$ 5,539,725</u>	<u>\$ 9,578,582</u>	<u>\$ 236,964,327</u>	<u>\$ 9,315,184</u>	<u>\$ 8,777,626</u>	<u>\$ 18,092,810</u>	<u>\$ 255,057,137</u>

*Food Bank In-kind distributed includes Food Rescue product.

1. Summary of significant accounting policies:

Nature of activities:

Second Harvest Heartland (the Organization) is a Minnesota nonprofit organization with a mission of ending hunger together. The Organization obtains, stores, and distributes donated and purchased food for approximately 1,100 food programs in Minnesota and Western Wisconsin. The Organization is a member of Feeding America, an association of more than 200 food banks serving the entire country. Through partnerships with public agencies and other nonprofit organizations, the Organization assists in the administration of government programs: The Emergency Food Assistance Program (TEFAP), the Commodity Supplemental Food Program (CSFP), and Farm to Food Shelf. Partnerships with the health care industry to improve food security and health outcomes continue to evolve and expand. A prepared meals program started by the Organization during the pandemic continues to be a needed resource in the community. The Organization also administers a food rescue program with grocery and hospitality partners and provides food to partner food shelves and other programs that address hunger. In addition, the Organization leads the Midwest Food Hub through which it sources millions of pounds of fresh produce each year and delivers it to cooperative member food banks. Financial funding for the Organization comes from general contributions, grants and greatly discounted transportation and storage fees charged to member agencies. Non-financial funding comes from donations of food.

Fiscal Year 2024 saw more demand for Second Harvest Heartland's hunger-relief work. The cost of living, housing, employment, healthcare, and energy costs all contribute to that. With record numbers of food shelf visits in Minnesota, the Organization worked closely with food shelf and hunger-relief program partners across the region to meet the needs of neighbors. In the year ended September 30, 2024, the Organization sourced 20% more protein than the prior year and produce sourcing was also up nearly 34% over the prior year.

Hunger can affect anyone, but it's not the same for everyone. In Minnesota, half of all people experiencing food insecurity live outside the seven-county metro area. Hunger is also pervasive in Minnesota's communities of color due to systemic racial disparities that exist in access to food. Second Harvest Heartland is working hard to source the foods families know and love, despite challenges brought on by the increased demand.

New related entity:

During the year ended September 30, 2024, the Organization's board approved the creation of a new 501(c)(3) foundation entity which will be operated exclusively for the support of the Organization. Second Harvest Heartland Foundation (the Foundation), was incorporated on September 13, 2024. The Foundation had no activity for the year ended September 30, 2024.

Use of estimates:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Significant estimates include in-kind donated food inventory, receipts and distributions.

1. Summary of significant accounting policies (continued):

Revenue recognition:

The Organization records the following exchange transaction revenue in its statements of activities:

Sponsorship and event registration revenue collected in advance of the related event are deferred and recognized as revenue at the point in time at which the event takes place. Registrations are refundable if the event is cancelled. The performance obligation is hosting the event for registered attendees.

Program service revenue includes shared maintenance and delivery fees charged to agency partners, for which the performance obligation is distribution of product. It also includes a share of charges to partner food banks to recover state-wide product solicitation, handling, freight, advocacy, and administrative expenses which are recognized in the month the services are provided. Charges to health care partners for the production and distribution of boxes of diet-specific foods and Supplemental Nutritional Assistance Program (SNAP) eligibility screenings are recognized when the boxes are distributed, or when the SNAP screenings take place.

Purchased product revenue is recognized at the point in time at which purchased product is shipped or distributed to partner agencies. Revenue is collected by the end of the month following the date of shipment or distribution. The performance obligation is the transfer of the goods.

Contributions and grants:

All grants and contributions are without donor restrictions and available for use unless specifically restricted by the donor.

Grants and contributions with restrictions from non-government sources are recorded as revenue when received and/or pledged. Amounts are released as donor restrictions are satisfied or as restrictions expire. If a restriction expires in the same fiscal year in which the contribution was recognized, the contribution is reported as an increase in net assets without donor restriction.

Conditional grants and promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Grant revenue is recognized when applicable expenses are incurred, which is considered the condition for recognition of revenue.

As of September 30, 2024, and 2023, the Organization had conditional grants with remaining commitments of \$879,500 and \$2,522,870, respectively. These remaining funds are conditional upon incurring eligible expenditures. Conditional promises to give are recognized in the financial statements when the conditions have been met. The conditions remaining at September 30, 2024 are all expected to be met in fiscal year 2025.

Unconditional contributions without donor restrictions are recognized as revenue when received and/or pledged.

1. Summary of significant accounting policies (continued):

Net assets:

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The Organization presents its net assets without donor restrictions in two categories: operations and in-kind inventory. The in-kind inventory category is the accumulated effect that in-kind activity has on ending inventory, while the operations amount is the accumulated effect of change in net assets excluding the in-kind inventory activity. The governing board has designated, from net assets without donor restrictions, net assets for strategic initiatives and a board-designated endowment.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At the end of fiscal years 2024 and 2023, the Organization did not have any net assets with donor restrictions in perpetuity.

Functional allocation of expenses:

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and change in net assets. Expenses that relate to more than one program or function have been allocated based on the best estimates of management. Salary expenditures and related benefits are allocated directly to the appropriate departments based on time records. Occupancy and depreciation/interest charges are allocated based on a combination of square footage (for warehouse space) and FTEs (for office space). Supplies & technology and management/admin expenses are allocated to various departments based on FTEs at the end of each month. Communications and advocacy expenses are allocated based on estimates of content of communications materials.

1. Summary of significant accounting policies (continued):

Received product:

The Organization reports contributions of food over which it has control as in-kind donations without donor restriction. Public donations of food and food obtained through USDA commodity programs (TEFAP and CSFP) are valued based on a weighted average wholesale value per pound. This valuation is determined using a report provided annually by Feeding America based on an annual study. Food received is used in the Organization’s programming. During fiscal years 2024 and 2023, the Organization received 170,579,000 and 143,649,000 pounds of food, respectively. The Organization reported in-kind donations for donated food, along with purchased product valued at cost, as follows:

	<u>2024</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	113,440,000	\$ 186,796,000
TEFAP	10,866,000	23,414,000
CSFP	<u>2,339,000</u>	<u>5,810,000</u>
In-kind donations	126,645,000	216,020,000
Purchased	36,130,000	27,735,000
In-kind donations as agent	<u>7,804,000</u>	<u>15,644,000</u>
Total received	<u>170,579,000</u>	<u>\$ 259,399,000</u>

	<u>2023</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	97,363,000	\$ 158,625,000
TEFAP	6,034,000	12,351,000
CSFP	<u>1,744,000</u>	<u>4,255,000</u>
In-kind donations	105,141,000	175,231,000
Purchased	30,859,000	26,049,000
In-kind donations as agent	<u>7,649,000</u>	<u>14,852,000</u>
Total received	<u>143,649,000</u>	<u>\$ 216,132,000</u>

The Organization acts as an agent for five other Feeding America Food Banks with locations in Minnesota. Per contractual arrangements, the Organization re-distributes certain products to these other Feeding America locations.

SECOND HARVEST HEARTLANDNOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2024 AND 20231. Summary of significant accounting policies (continued):

Distributed product:

During fiscal years 2024 and 2023, the Organization distributed 167,857,000 and 141,290,000 pounds of food, respectively, to member agencies and partners. The following reflects all of the Organization's distributions (including purchased product, but excluding waste) during fiscal years 2024 and 2023:

	<u>2024</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	111,622,000	\$ 183,003,000
TEFAP	10,746,000	23,375,000
CSFP	2,275,000	5,515,000
In-kind distributions, net of revaluation and waste	124,643,000	211,893,000
Purchased	35,306,000	27,069,000
In-kind distributions as agent	7,908,000	15,866,000
Total distributions	<u>167,857,000</u>	<u>\$ 254,828,000</u>
	<u>2023</u>	
	<u>Pounds</u>	<u>Dollars</u>
Donated product	95,458,000	\$ 155,901,000
TEFAP	5,847,000	11,927,000
CSFP	2,105,000	5,011,000
In-kind distributions, net of revaluation and waste	103,410,000	172,839,000
Purchased	30,431,000	26,143,000
In-kind distributions as agent	7,449,000	14,457,000
Total distributions	<u>141,290,000</u>	<u>\$ 213,439,000</u>

1. Summary of significant accounting policies (continued):

Contributed services:

The Organization received donated in-kind skilled professional services for various initiatives during fiscal years 2024 and 2023 as follows:

Type of contributions for beneficiaries	Valuation	2024	2023
Network optimization and supply chain consulting	Combination of industry standards and consultant-identified billable rates	\$ 54,621	\$ 59,475
Data and analytics consulting	Combination of industry standards and consultant-identified billable rates	234,008	82,755
Other professional services, including diversity, human resources, marketing, and general consulting	Combination of industry standards and consultant-identified billable rates	<u>368,562</u>	<u>244,594</u>
		<u>\$ 657,191</u>	<u>\$ 386,824</u>

The majority of in-kind professional services were used in programs and in management during the years ended September 30, 2024 and 2023, respectively.

Additionally, volunteers have donated significant amounts of their time to enhancing the Organization's activities. The number of hours of service were 71,371 and 55,088 in 2024 and 2023, respectively. The value of these donated services is estimated to be \$3,137,244 and \$2,186,562 in 2024 and 2023, respectively, however the amount is not reflected in the accompanying financial statements as they are non-specialized services.

Cash and cash equivalents:

Cash and cash equivalents include interest bearing money market accounts and any debt securities with an original maturity of three months or less. The Organization maintains its cash and cash equivalents with various financial institutions. At times, these balances may exceed federally insured limits. The Organization has not experienced a loss as a result of these deposits.

Investments:

Investments in marketable securities with readily determinable fair value and all investments in debt securities are valued at their fair values in the statement of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less investment expenses.

Certain amounts of investments have been designated by the board for strategic initiatives and a board-designated endowment.

1. Summary of significant accounting policies (continued):

Strategic investments:

During 2021 the Organization, along with its board, developed a plan of strategic investments to further its mission over the next five years. The plan totaled over \$14.2 million and covers three main areas:

- DEI Investment, which includes culturally specific food and meals, agency grants, and research and marketing to create awareness;
- Programs, which includes developing a food resource center, enhancing service delivery equity, and expanding cluster collaboration;
- Future Capabilities, which includes HITRUST information security and deploying data and analytics.

At September 30, 2024, approximately \$2.25 million remained designated for the above initiatives.

Fair value measurements:

The Organization's investments are reported using a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets, for which prices are available at the measurement date.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used must maximize the use of observable inputs and minimize the use of unobservable inputs.

1. Summary of significant accounting policies (continued):**Adoption of new accounting standard:**

In July 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments. The guidance creates a new “current expected credit loss” (CECL) model applicable to trade accounts receivable and allowance for credit losses. Under the CECL model, the allowance for expected credit losses reflects the entity’s current estimate of the contractual cash flows not expected to be collected, based on its assessment of credit risk as of the reporting date.

Inventory:

Inventory is valued on a first-in, first-out basis. Public donations of food and food obtained through USDA commodity programs (TEFAP and CFSP) are valued based on a weighted average wholesale price per pound. This valuation is determined using a report provided annually by Feeding America based on an annual study. Purchased food is valued based on actual cost. Inventory is shown net of any inventory on-hand that is allocated to Feeding America entities for which the Organization is only acting as an agent.

Property and equipment:

Property and equipment are stated at cost. Contributed property and equipment are recorded at fair value at the date of donation. Depreciation is provided over the estimated useful lives of the assets by the straight-line method. The Organization capitalizes all property and equipment over \$5,000. Asset lives are as follows:

Buildings	40 years
Building improvements	10-25 years
Equipment	3-10 years
Autos and trucks	3-10 years

Computer software:

The Organization capitalizes the costs of obtaining or developing internal use software including directly related payroll costs and amortizes those costs over a period of three years, beginning when the software is ready for its intended use.

Agency and partner receivables:

Agency and partner receivables are stated at the estimated net realizable value after allowance for credit losses. The allowance for credit losses related to agency and partner receivables is based on management’s assessment of the collectability of specific agency accounts, the aging of the agency and partner receivables, historical experience, and other available evidence. If there is a deterioration of credit worthiness or actual defaults are higher than the historical experience, management’s estimate of the recoverability of amounts due could be adversely affected.

The allowance for credit losses on agency and partner receivables was \$10,000 and \$2,923 as of September 30, 2024 and 2023, respectively. The Organization transacts with its member agencies on open credit and such accounts receivable are uncollateralized. The maximum loss that would be incurred if a member agency failed to pay amounts owed would be limited to the recorded amount due after any estimate of credit losses provided.

An account is considered past due if the balance is outstanding for more than 60 days.

1. Summary of significant accounting policies (continued):**Grants receivable:**

Grants receivable are stated at the estimated net realizable value after provision for doubtful accounts. There was no allowance related to grants receivable at September 30, 2024 and 2023.

Leases:

The Organization leases trucks and trailers and determines if an arrangement is a lease at inception. Right of Use (ROU) assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the Organization's obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses an estimate of its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Organization has elected to separate lease and non-lease components for vehicle leases and therefore the operating lease ROU assets exclude non-lease costs. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization has elected to recognize payments for short-term leases with a lease term of 12 months or less as expenses incurred and these leases are not included as lease liabilities or ROU assets on the consolidated statements of financial position.

Income taxes:

The Organization is exempt, as a public charity, from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. However, income from certain activities not directly related to the Organization's tax-exempt purpose could result in taxable income.

The Organization has evaluated its tax positions for uncertainty and has no unrecognized tax matters that are required to be disclosed.

Advertising costs:

Advertising costs are expensed as incurred. Total advertising expense was \$4,249,218 and \$3,123,702 for the years ended September 30, 2024 and 2023, respectively.

Reclassifications:

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Subsequent events:

The Organization evaluated for subsequent events through December 9, 2024, the date the financial statements were available for issuance.

2. Liquidity:

The following represents the Organization’s financial assets at September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 9,294,682	\$ 13,783,562
Investments, current	20,499,304	22,221,707
Receivables:		
Agency and partner, net	2,396,718	2,413,962
Grants and contracts	1,807,006	1,386,355
Pledges, current portion, net	<u>4,481,400</u>	<u>737,200</u>
Total current financial assets	<u>38,479,110</u>	<u>40,542,786</u>
Less amounts not available to be used within one year:		
Net assets with donor restrictions	19,867,957	5,946,669
Less:		
Pledges, net of current portion	(10,307,584)	
Net assets with restrictions to be met in less than a year	<u>(4,481,400)</u>	<u>(737,200)</u>
	<u>5,078,973</u>	<u>5,209,469</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 33,400,137</u>	<u>\$ 35,333,317</u>

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all funding sources and expenditures related to operations and capital improvements.

Financial assets include the following and generally are expected to be managed as defined below:

- Operating cash – maintain 30 to 45 days of cash operating expense.
- Investments – excess operating reserves to be managed in accordance with investment policy.
- Investments – for restricted purposes (i.e.: Capital Campaign) – to be managed in accordance with investment policy and donor wishes with respect to timing of expenditure.
- Accounts receivable – provide 30 to 45 days of credit to agencies.
- Contracts receivable – per contract terms.
- Pledges receivable – per pledge agreement terms.
- Prepaid expenses – minimize based on financial value and contractual terms.
- Donated stock – liquidate as soon as practical and in accordance with gift receipt policy.

2. Liquidity (continued):

Funding and management of liquidity and investment returns may be facilitated by the following:

- Accounts payable – payment according to vendor terms to avoid finance charges.
- Short-term debt/Line of credit – maintain a line of credit based on short-term financial exposure.
- Long-term debt – obtain based on Board authorized financial plan.
- Restricted assets – maintain based on restricted expenditure timeframe.

Our board-designated endowment is subject to an annual spending rate of 5% percent as described in Note 10 and totaled \$25,382,518 at September 30, 2024. Although we do not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of our Board’s annual budget approval and appropriation), these amounts could be made available if necessary.

3. Fair value measurements:

The following table presents the fair value hierarchy for the balances of the assets of the Organization measured at fair value on a recurring basis as of September 30, 2024 and 2023.

	<u>2024</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 22,452,667			\$ 22,452,667
Fixed income	13,232,532			13,232,532
Alternatives	<u>8,290,076</u>			<u>8,290,076</u>
	<u>\$ 43,975,275</u>			<u>43,975,275</u>
Cash				<u>1,906,547</u>
				<u>\$ 45,881,822</u>
	<u>2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 17,605,108			\$ 17,605,108
Fixed income	16,550,862			16,550,862
Alternatives	<u>7,073,162</u>			<u>7,073,162</u>
	<u>\$ 41,229,132</u>			41,229,132
Cash				<u>3,250,774</u>
				<u>\$ 44,479,906</u>

SECOND HARVEST HEARTLANDNOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2024 AND 2023**4. Inventory:**

Ending inventory is comprised of the following:

	<u>2024</u>	<u>2023</u>
Donated	\$ 4,464,897	\$ 2,261,524
TEFAP	670,944	596,968
CSFP	1,275,869	980,466
Purchased	<u>3,474,425</u>	<u>2,856,417</u>
	<u>\$ 9,886,135</u>	<u>\$ 6,695,375</u>

5. Pledges receivable:

Unconditional promises to give are recorded as pledges receivable and revenue of the appropriate net asset category.

Unconditional promises to give, net of allowance, at September 30 are expected to be collected follows:

	<u>2024</u>	<u>2023</u>
Pledges receivable net of allowance	\$ 15,490,383	\$ 737,200
Less discount to present value at 3.56%	<u>(701,399)</u>	<u>-</u>
Net pledges receivable	14,788,984	737,200
Less portion collectible within one year	<u>(4,481,400)</u>	<u>(737,200)</u>
Long-term portion collectible in one to five years	<u>\$ 10,307,584</u>	<u>\$ -</u>

6. Property and equipment:

	<u>2024</u>	<u>2023</u>
Building	\$ 11,120,902	\$ 11,120,902
Building improvements	25,224,171	23,592,100
Office equipment and software	3,515,732	3,323,273
Warehouse equipment	2,763,196	2,418,553
Autos and trucks	3,578,948	3,921,886
Land	<u>2,470,000</u>	<u>2,470,000</u>
	48,672,949	46,846,714
Less accumulated depreciation and amortization	<u>12,326,171</u>	<u>11,001,807</u>
	<u>\$ 36,346,778</u>	<u>\$ 35,844,907</u>

SECOND HARVEST HEARTLANDNOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2024 AND 20237. Long-term debt:

	<u>2024</u>	<u>2023</u>
Mortgage payable with interest at 2.45% over the business day yield on 5-year Interest Rate Swaps. Mortgage requires monthly installments of \$25,256 consisting of principal and interest until all unpaid principal and interest is due February 1, 2027. Mortgage is collateralized by building and accessories.	\$ 3,673,654	\$ 3,808,693
Less current portion	<u>141,673</u>	<u>135,039</u>
	<u>\$ 3,531,981</u>	<u>\$ 3,673,654</u>

Future maturities of long-term debt are as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2025	\$ 141,673
2026	148,141
2027	3,383,840

8. Operating leases:

The Organization has various lease agreements for trucks and trailers with expiration dates through February 28, 2031. The following tables provide quantitative information concerning the Organization's leases for the year ended September 30, 2024:

Total rent expense in connection with truck and trailer rental was \$543,961 and \$378,072 for the years ended September 30, 2024 and 2023, respectively.

Other information:	<u>2024</u>	<u>2023</u>
Right-of-Use Assets obtained in exchange for operating lease liabilities	\$ 344,726	\$ 2,119,494

Weighted average:

Remaining lease term	5.08 years or 61 months	4.83 years or 58 months
Discount rate	<u>6.40%</u>	<u>6.19%</u>

8. Operating leases (continued):

The Organization classified the total undiscounted lease payments that are due in the next twelve months as current. Maturity analysis of annual undiscounted cash flows for lease liabilities as of September 30, 2024 is as follows:

<u>Year ended September 30</u>	<u>Amount</u>
2025	\$ 530,261
2026	388,783
2027	342,592
2028	295,653
2029	267,549
Thereafter	<u>208,659</u>
Total lease payments	2,033,497
Less imputed interest	<u>307,772</u>
Present value of lease liabilities	<u>\$ 1,725,725</u>

The Organization also leases equipment through short-term leases. Total short-term lease expense was \$589,065 and \$497,471 for the years ended September 30, 2024 and 2023, respectively.

9. Lease-use agreement:

The Brooklyn Park food bank facility renovation was partially funded by \$18 million of a General Obligation Grant from the State of Minnesota (State) to the City of Brooklyn Park (City).

Access to grant funds by the organization to complete the food bank facility required ownership of the food bank facility by the City. On February 11, 2019 the Organization leased the land and food bank facility to the City for 37.5 years resulting in constructive ownership as required by State regulations. No amounts are due under this lease. The term of the lease-use agreement is 15 years.

The Organization has two renewal options (15 years and 7.5 years). In the event that the lease-use is not renewed or the agreement is terminated early, the City has the option to buy the facility or sell the facility. Proceeds from the sale of the facility must be used to repay State bond funding, outstanding debt and Organization improvements to the facility. No amounts are due under this lease-use agreement.

10. Endowment :

Second Harvest Heartland has established a Board-designated endowment fund, called Endowment for a Hunger Free Future (the “Endowment”). The purpose of this Endowment is to fight hunger now and lay the groundwork for a stronger Minnesota that’s ready for new challenges. The funds will help feed the community, strengthen food shelves and other hunger-relief agencies and address the racial hunger divide.

The composition of the Organization’s endowment fund by type for the years ended September 30 is as follows:

	2024		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Total endowment funds, board-designated	<u>\$ 25,382,518</u>	<u>\$ -</u>	<u>\$ 25,382,518</u>

	2023		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Total endowment funds, board-designated	<u>\$ 21,221,405</u>	<u>\$ -</u>	<u>\$ 21,221,405</u>

The Organization has adopted investment and spending policies for the Endowment that attempt to achieve a balanced return of current income and growth of principal. The goal over the investment horizon shall be to meet or exceed the market index selected by the finance committee and maintain an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark selected. The Endowment’s return objective is its primary concern. To satisfy the current income and growth of principal objective, the investment portfolio is structured with a balanced investment objective with targets of 50-70% equity, 10-30% fixed income, and 10-30% alternatives. In order to achieve objectives, the endowment fund could tolerate a maximum loss of 20% over any one-year period.

The Organization has adopted an endowment policy to determine the amount to spend from the Endowment. Pursuant to that policy, each year the Board can authorize up to 5% of the market value of the Endowment for any purpose consistent with the purpose of the Endowment. The balance of the Endowment fund is considered a long-term asset and is included in Board-designated unrestricted assets for allocation by the Board in future years.

SECOND HARVEST HEARTLANDNOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2024 AND 202310. Endowment (continued):

Changes in endowment funds are as follows:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Endowment funds, board designated, October 1, 2022	\$ 18,982,616	\$ -	\$ 18,982,616
Board designation for endowment addition	250,548	-	250,548
Change in investment value	<u>1,988,241</u>	<u>-</u>	<u>1,988,241</u>
Endowment funds, board designated, September 30, 2023	21,221,405	-	21,221,405
Change in investment value	<u>4,161,113</u>	<u>-</u>	<u>4,161,113</u>
Endowment funds, board designated, September 30, 2024	<u>\$ 25,382,518</u>	<u>\$ -</u>	<u>\$ 25,382,518</u>

11. Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes:

	<u>2024</u>	<u>2023</u>
Minnesota Central Kitchen	\$ 250,000	\$ 1,108,593
Child Hunger	830,000	850,000
Equipment	834,248	520,859
Moonshot	16,530,000	-
Other programming and fundraising	914,709	1,357,845
SNAP	<u>509,000</u>	<u>2,109,372</u>
	<u>\$ 19,867,957</u>	<u>\$ 5,946,669</u>

12. Net assets released from restriction:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as follows:

	<u>2024</u>	<u>2023</u>
Minnesota Central Kitchen	\$ 858,593	\$ 755,344
Child Hunger	203,000	11,000
Equipment	86,612	619,870
Other programming and fundraising	1,191,012	1,878,964
SNAP	<u>1,600,372</u>	<u>1,939,628</u>
	<u>\$ 3,939,589</u>	<u>\$ 5,204,806</u>

13. Fiscal agent:

During the years ending September 30, 2024 and 2023, the Organization received cash from donors for which it is acting as a fiscal agent, which were not fully disbursed at September 30, 2024 and 2023. As such, these funds have been treated as current liabilities in the accompanying financial statements.

The Organization has received food donations that are, by contract, allocated to other food banks. Amounts of inventory on-site that were so allocated were \$275,305 and \$520,856 for September 30, 2024 and 2023, respectively. These amounts were not included in the final inventory as presented on the statement of financial position.

14. Retirement plan:

The Organization has a defined contribution 403(b) thrift plan, in which employees are eligible to participate on the first of the month following 30 days of employment. The Organization contributes 4% of the employees' annual salaries to the Plan regardless of whether the employees contribute any of their pretax wages to the Plan. The Organization also matches 50% of employees' contributions up to 4% of the employees' annual salaries. The employees vest at a rate of 25% per year and are fully vested after four years in the plan. The Organization's employer contributions were \$976,517 and \$818,146 to the for the years ended September 30, 2024 and 2023, respectively.